

## Message Text

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PAGE 01 GENEVA 07415 291424Z

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ACTION EB-07

INFO OCT-01 EUR-12 IO-10 ISO-00 L-03 FRB-01 OMB-01 TAR-01

SP-02 AGR-10 AID-05 CIAE-00 COME-00 INR-07 LAB-04

NSAE-00 OIC-02 SIL-01 STR-04 TRSE-00 CIEP-02 CEA-01

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TO SECSTATE WASHDC PRIORITY 6041

INFO AMEMBASSY LONDON PRIORITY

UNCLAS GENEVA 7415

EO: 11652: N/A

TAGS: UNCTAD ETRD EAGR

SUBJ: UNCTAD COCOA CONFERENCE: REPORT OF WORKING GROUP

REF: GENEVA 7361

1. FOLLOWING IS DRAFT TEXT REPORT TO ECONOMIC COMMITTEE BY CHAIR-  
MEN WORKING GROUP (MADDEN). REPORT COVERS FIRST SESSION OF WG  
SEPT 25, IN WHICH NEW IDEAS FOR ECONOMIC PROVISIONS OF COCOA  
AGREEMENT WERE PRESENTED (REFTEL). REPORT WAS DRAFTED BY MADDEN  
AND SHOULD BE PRESENTED TO FULL ECONOMIC COMMITTEE AFTERNOON OF  
SEPT 29. REPORT ON SECOND SESSION OF WG WHICH EXAMINED POSSIBLE  
DEFECTS IN PRESENT AGREEMENT WILL BE PRESENTED SEPARATELY.

BEGIN TEXT:

INTRODUCTION

(1.) THE WORKING GROUP WAS SET UP BY THE ECONOMIC COMMITTEE WITH  
THE FOLLOWING TERMS OF REFERENCE:

"(A) TO PREPARE A DOCUMENT SETTING OUT ADDITIONAL IDEAS RELATING  
TO THE STRUCTURE OF THE AGREEMENT; AND (B) COMMENTS ON THOSE IDEAS  
WHICH SEEM APPROPRIATE TO ASSIST THE ECONOMIC COMMITTEE IN ITS  
CONSIDERATION OF THE MATTER".

UNCLASSIFIED

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PAGE 02 GENEVA 07415 291424Z

(2) THE MEMBERSHIP, WHICH WAS ON A PERSONAL BASIS, COMPRISED: MR. COQUIN (EC), MR. HOFER (FRG), MR. LACHE (SWITZERLAND), MR. MUSGROVE (CANADA), MR. RIEM (NETHERLANDS), MR. O'DONNELL (US), MR. AGAMA (GHANA), MR. OLIVEITA (BRAZIL), MR. N'DIA (IVORY COAST), MR. NIYI (NIGERIA), MR. OSHINIBI (COCOA PRODUCERS ALLIANCE). THE CHAIRMAN WAS MR. M. MADDEN.

(3) DURING THE COURSE OF A MEETING HELD ON 25 SEPTEMBER, THE WORKING GROUP EXPLORED NEW IDEAS FOR A MECHANISM TO ACHIEVE BROADLY THE SAME OBJECTIVES AS THE INTERNATIONAL COCOA AGREEMENT, 1972 (ICCA). THIS PAPER SETS OUT THE ESSENTIAL FEATURES OF ONE SET OF MECHANISMS, NAMELY A BUFFER STOCK. MAIN FEATURES OF BUFFER STOCK

(4) (A) THE BUFFER STOCK WOULD OPERATE BY BUYING TO DEFEND A MINIMUM PRICE AND SELLING TO DEFEND A MAXIMUM PRICE, ALL SUCH TRANSACTIONS TAKING PLACE THROUGH THE NORMAL COMMERCIAL CHANNELS;

(B) THE MAXIMUM AND MINIMUM PRICES WOULD BE SET OUT IN THE AGREEMENT BUT THE COUNCIL WOULD HAVE POWER TO REVISE THEM AS NECESSARY. IT WAS SUGGESTED THAT A RANGE OF 20 US CENTS PER POUND BETWEEN THE MAXIMUM AND MINIMUM PRICES MIGHT BE APPROPRIATE;

(C) WHEN THE INDICATOR PRICE FELL TO THE MINIMUM PRICE PLUS 5 US CENTS, THE BUFFER STOCK WOULD BUY COCOA AND CONTINUE DOING SO UNTIL THE INDICATOR PRICE ROSE MORE THAN 5 CENTS ABOVE THE MINIMUM PRICE;

(D) THE BUFFER STOCK WOULD SELL WHEN THE INDICATOR PRICE ROSE TO THE MAXIMUM PRICE MINUS 5 US CENTS AND WOULD CONTINUE TO SELL UNTIL THE PRICE FELL BELOW THAT POINT OR UNTIL THE STOCK WAS EXHAUSTED;

(E) BETWEEN THE TRIGGER-POINTS FOR OPERATIONS OF THE BUFFER STOCK THERE WOULD BE A RANGE OF 10 US CENTS WITHIN WHICH THE PRICE WOULD MOVE FREELY IN RESPONSE TO MARKET FORCES;

(F) THE COMPOSITION OF THE INDICATOR PRICE WOULD BE DETERMINED BY THE COUNCIL;

(G) THE BUFFER STOCK WOULD OPERATE IN ACCORDANCE WITH RULES LAID DOWN BY THE COUNCIL COVERING SUCH MATTERS AS THE TYPE OF TRANSACTION PERMITTED, THE QUALITY OF COCOA THAT MAY BE BOUGHT, STORAGE, TURN-OVER OF STOCK, ETC.;

(H) STORAGE WOULD BE ARRANGED IN SUCH A WAY AS TO RETAIN, TO THE BEST POSSIBLE EXTENT, THE QUALITY AND THEREFORE THE VALUE OF THE COCOA IN THE BUFFER STOCK;

UNCLASSIFIED

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PAGE 03 GENEVA 07415 291424Z

(I) THE MAXIMUM SIZE OF THE BUFFER STOCK WOULD BE A MATTER TO BE NEGOTIATED, BUT ON HISTORICAL EVIDENCE 200,000 TONS WOULD PROBABLY BE SUFFICIENT AND 250,000 TONS THE MAXIMUM LIKELY TO BE REQUIRED;

(J) THE COST OF THE BUFFER STOCK WOULD DEPEND ON ITS SIZE AND WHAT PRICE LEVELS IT WAS DECIDED TO DEFEND. PROCEEDS FROM THE LEVY UNDER THE PRESENT AGREEMENT (AMOUNTING AFTER THREE YEARS TO ABOUT \$80,000,000) WOULD BE AVAILABLE TO LAUNCH THE BUFFER STOCK AND IF ANY EXTRA FUNDS WERE NEEDED, THESE COULD, IF THE COUNCIL SO DE-

CIDED, BE RAISED COMMERCIALY. AN ALTERNATIVE WOULD BE TO CONTINUE THE LEVY;

(K) THERE WOULD BE NORMALLY NO QUOTAS BUT, IF THE COUNCIL DECIDED THAT THE BUFFER STOCK OPERATIONS WOULD PROBABLY NOT BE SUFFICIENT TO PREVENT THE PRICE FALLING BELOW THE AGREED MINIMUM, IT COULD INTRODUCE THEM AS AN EMERGENCY MEASURE ON A TEMPORARY BASIS.

END TEXT.DALE

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